

HOUSE BILL REPORT

HB 1805

As Reported by House Committee On:
Financial Institutions & Insurance

Title: An act relating to the linked deposit program.

Brief Description: Modifying provisions of the linked deposit program.

Sponsors: Representatives P. Sullivan, Hasegawa, Linville, Pettigrew, Hankins, Kessler, Simpson, Ormsby, Kilmer, Schual-Berke and Eickmeyer; by request of Governor Gregoire.

Brief History:

Committee Activity:

Financial Institutions & Insurance: 2/16/05 [DP].

Brief Summary of Bill

- Increases the amount of funds available from \$50 million to \$100 million.
- Limits individual loans to less than \$1 million.
- Moves monitoring functions from the Department of Community Trade and Economic Development to the Office of Minority and Women's Business Enterprises.
- Prevents the State Treasurer from giving a discount to a state depository when the interest rate on certificates of deposit are less than 2 percent.
- Repeals sunset provisions.

HOUSE COMMITTEE ON FINANCIAL INSTITUTIONS & INSURANCE

Majority Report: Do pass. Signed by 11 members: Representatives Kirby, Chair; Ericks, Vice Chair; Roach, Ranking Minority Member; Tom, Assistant Ranking Minority Member; Newhouse, Santos, Schual-Berke, Serben, Simpson, Strow and Williams.

Staff: Jon Hedegard (786-7127).

Background:

The Linked Deposit Program was created in 1993. The stated purpose of the program is to increase access to business capital for the state's certified minority-owned and women-owned

businesses. Under the program, certified businesses can obtain reduced interest rate loans from participating financial institutions.

The State Treasurer is authorized to use up to \$50 million of short-term state treasury surplus funds. These funds are deposited with public depositories as certificate of deposits on the condition that the public depository make "qualifying loans" under the program. These funds are used to purchase certificates of deposit (CDs) equaling the total amount of money loaned to certified business. The state forgoes up to 2 percent in interest on the CDs and passes along the savings to the public depository with the condition that the depository reduces up to 2 percent in the interest rate for the loan recipients.

Qualifying loans are loans:

- made to certain minority or women's business enterprises;
- for a period not to exceed 10 years;
- at an interest rate that is at least 2 percentage points below the market rate that normally would be charged for a loan of that type; and
- with points or origination fees are limited to 1 percent of the loan principal.

To be eligible the applicant must:

- be a minority and/or a woman;
- have at least 51 percent of ownership of the business; and
- control the business.

Three state agencies are involved in the program. The State Treasurer established the program. The Department of Community Trade and Economic Development (CTED) monitors the program. The Office of Minority and Women's Business Enterprises (OMWBE) certifies the eligibility of the businesses.

The program is schedule to sunset on June 30, 2008.

Summary of Bill:

The amount of funds that the State Treasurer may use in the program is increased from \$50 million to \$100 million.

Individual loans may not exceed \$1 million.

The monitoring of the program is moved from the CTED to the OMWBE.

The State Treasurer is prevented from giving a discount to a depository when the effective interest rate on certificates of deposits is less than 2 percent.

The sunset provisions for the program are repealed.

Appropriation: None.

Fiscal Note: Not requested.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

Testimony For: This is a successful program. It has made 490 loans to 347 firms. The bill will provide needed access to business capital. This is a vital tool for small businesses, particularly minority-owned and women-owned businesses. It will bring jobs and economic development throughout the state. The bill will transfer certain monitoring responsibilities to the OWMBE. They are the functional monitor of the program today. This bill is a significant piece of the Governor's economic development package. Access to capital is critical. Increasing the amount of money in the program will work to eliminate the backlog in requests. This is a job creation and retention proposal. The program is a partnership between Financial Institutions and the state. A \$150 million has been lent since 1993. Firms in the program have seen an 18 percent increase in gross revenues. Firms must meet the lending criteria of the bank. The default rate is very low and the state has no liability for a default. The program has a waiting list of 11 months and \$7 million. It has been as high as 18 months and \$18 million. The program can't make a new loan until an existing loan is paid off. The OWMBE is working to certify more firms and reach out to more businesses in the community. Small businesses are the backbone of Washington's economy. The access to capital is the single biggest need of minority-owned businesses. The cap on loan size of \$1 million is important. The program has made too many loans for real estate. It is at 35 percent and that should be reduced. Awareness of the program must be increased. The program has an 11 year track record of success. It helps business get loans and it creates jobs.

Testimony Against: None.

Persons Testifying: Representative P. Sullivan, prime sponsor; Peter Anton, Office of Financial Management; Carolyn Crowson, Office of Minority and Women's Business Enterprises; Doug Extine, Washington State Treasurers Office; Ellen Abellera, Commission on Asian Pacific American Affairs; Glen Gregory, Coalition for Investing in Washington Jobs; Dan Seydel, Tabor 100; and Duane Hill, Griffin Hill and Associates.

Persons Signed In To Testify But Not Testifying: None.